

1-1-1986

## Washington report, vol. 15 no.17, June 23, 1986

American Institute of Certified Public Accountants.

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### Recommended Citation

American Institute of Certified Public Accountants., "Washington report, vol. 15 no.17, June 23, 1986" (1986). *Newsletters*. 1051.  
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# **AICPA** *Washington Report*

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## FEDERAL ELECTION COMMISSION

"FEC Reports on Financial Activity, 1983-84, Final Report: Presidential Pre-Nomination Campaigns," the FEC's final statistical report on the 1984 Presidential primary season, has recently been released. This report includes information on 14 1984 Presidential candidates who each spent more than \$100,000 in an effort to obtain their party's nomination. From the inception of their campaigns through 12/31/85, these candidates, according to the FEC, reported raising \$138 million and spending \$137 million. However, the FEC reports that in real dollars, (taking into account transfers, loan repayments, contribution refunds, and rebates received), the campaigns actually raised \$108 million and spent \$107 million. Using these adjusted figures, contributions from individuals accounted for 60% of what the campaigns raised, Federal funds for 34%, and PAC contributions for 1.2%, according to the FEC report. The FEC also reports that loans, other than candidate loans, totalled \$24 million, or 17% of the initially reported \$138 million, raised. As of 12/31/85, \$4.3 million was outstanding to individuals or lending institutions. Copies of the report are available for \$1.00 from the FEC's Public Records Office, 999 E Street, N.W., Washington, D.C. 20463

## FEDERAL HOME LOAN BANK BOARD

An additional premium for FSLIC insurance equal to one thirty-second of one percent of the total amount of the accounts of the insured members of each insured institution, as of 3/31/86, has been assessed by the Federal Home Loan Bank Board as the operating head of FSLIC (see the 6/16/86 Fed. Reg., pp. 21804-5). In general, the basis for the increased assessment was a determination that FSLIC will, "incur further substantial losses and expenses in calendar year 1986" following on "substantial losses during calendar years 1981-1985 and the first quarter of 1986." The effective date of this action is 6/10/86. For further information contact Mary Creedon at 202/377-6620.

## OFFICE OF MANAGEMENT AND BUDGET

Application of 1985 income tax refunds to unpaid government debts has resulted in the recovery of \$135 million from "hardcore Government loan defaulters," according to a recent joint announcement from OMB and the Department of Education. The four other agencies which participated in the offset program with Education this year were the Veterans Administration, the Small Business Administration, the Department of Housing and Urban Development, and the Department of Agriculture. Last January, OMB announced the 750,000 individual accounts were being referred to the Internal Revenue Service for offset, involving total debt of \$1.6 billion. Of the 750,000 accounts referred, 605,000 were ultimately certified by IRS as being capable of offset. Forty-one percent, or 248,027 accounts, were actually offset. Because many of the debts, such as those involving housing and other large-dollar loans, are much larger than the average refund, only about 10 percent of the potential dollars were recovered in this first year of the offset program. Such cases will be candidates for referral to IRS again next year if the debtor remains delinquent. The program will be expanded next year, with the five first-year agencies resubmitting debt not satisfied as well as debt from additional portfolios. Also, four new agencies will be participating — Justice (criminal fines and penalties); Public Health Service (education loans to doctors, nurses and other health professionals); Defense (debt due from former servicemen and women that still owe on pay allowances and re-enlistment bonuses), and Treasury (Bureau of the Mint, administrative overpayments). Notices from all nine agencies to approximately 2 million loan holders who are delinquent in their repayments will be mailed within the next month, offering the opportunity to satisfy the debt and avoid offset next year. This year such notices prompted over 50,000 individuals voluntarily to repay \$30 million in order to avoid referral to IRS.

## SECURITIES AND EXCHANGE COMMISSION

"...all fraudulent securities activities - including insider trading - amount to a fraction of 1% of the multi-billions of dollars of corporate and government securities that trade daily in America," according to testimony by SEC Chairman John S.R. Shad before a Congressional Subcommittee on 6/18/86. This hearing was convened by the House Subcommittee on Telecommunications, Consumer Protection and Finance to focus on "insider trading" and, according to its Chairman Rep. Timothy E. Wirth (D-CO), will be followed by an additional hearing in July to receive testimony from representatives of the New York Stock Exchange. In his opening statement, Rep. Wirth commended SEC Chairman Shad, Enforcement Director Gary Lynch and the Commission as a whole on recent successes and "on the success of your entire program to combat insider trading."

Rep. Wirth then turned to two assertions of other unspecified sources with which he later disagreed. He took exception to a view that there is nothing wrong with insider trading - that it harms no one and "simply makes the markets more efficient." He also discussed the proposition of others that insider trading is pervasive and that the SEC is "virtually powerless to stop it." Rep. Wirth stated: "In my view, two very important messages have emerged from the recent cases which answer these assertions. First, it is clear that the SEC can make the big case. Along with the printers and cab drivers and the corporate officials, the SEC can find and prosecute investment bankers, analysts and other market professionals. And the SEC has shown that it can reach those who attempt to conceal their illegal activity through off-shore accounts and who, in the past, have traded with impunity and without detection behind the shield of foreign secrecy laws. Second, in discussions I have had with officials at many securities firms during the past month, it is clear that they understand that insider trading by members of the industry undermines the very credibility of the industry itself - with their corporate clients, and with the millions of public investors upon whom they rely. These firms do not, and simply cannot, wink at insider trading. They must actively seek to prevent it. Virtually every firm is taking a fresh look at its own internal procedures. I believe that what will emerge from the events of recent months and from the SEC's continuing inquiry will be an industry with an even stronger resolve to prevent insider trading. For his part, SEC Chairman Shad expressed appreciation for the generally complimentary statements by the Subcommittee Members and stated that the SEC was not appearing before the Subcommittee to request additional resources or legislation.

## TREASURY, DEPARTMENT OF

Adjusted gross income reported by individual income tax filers exceeded \$2 trillion for the first time in 1984 and led to an 11 percent increase in total income tax, according to a recent release from the IRS. Preliminary data for 1984 tax returns, according to the IRS, show itemized deductions for interest and taxes paid increased by more than 15 percent over 1983's deductions. The characteristics of these returns are described in the 1986 spring issue of the IRS quarterly publication, "Statistics of Income Bulletin." Another study in this report shows that 1983 nontaxable, high income returns reached the highest level in recent history. Of the 198,608 tax returns with adjusted gross income of \$200,000 or more, 321 had no income tax liability to either the U.S. or a foreign government. The 321 nontaxable returns for 1983 are up from 109 returns in 1982. Nontaxable, high income returns represented under 1/4 of 1 percent of all high income returns. This issue of the Bulletin also provides a closer analysis of recent partnership statistics, including a more complete picture of the impact of tax shelter activities, and a report on the continued decline in the crude oil windfall profit tax. The "Statistics of Income Bulletin," Publication 1136, is available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. The annual subscription rate is \$20 and the single issue rate is \$5.50.

## TREASURY, DEPARTMENT OF

Notices to taxpayers, enforcing the \$50 per return penalty for filing certain 1984 information returns without correct taxpayer identification numbers (TINs), have been recently mailed by the IRS. This penalty is a provision of the Interest and Dividend Tax Compliance Act of 1983. The IRS mailed notices to 3,400 payers of interest and dividend income who filed large numbers of information returns with incorrect TINs. Each notice contains a magnetic tape list of the payer's information returns with incorrect TINs and a publication explaining how to interpret the list and providing the relevant regulations. The notices also include an affidavit which payers must use to certify complying with the regulations, thus requesting a waiver of the \$50 penalty for each listed information return. The IRS also has started sending similar notices to 700 large volume payers of interest and dividend income who filed information returns for tax year 1984 with missing or obviously incorrect payee TINs.

## SPECIAL: AICPA PANEL APPEARS BEFORE DINGELL SUBCOMMITTEE ON ACCOUNTING OVERSIGHT

"The profession is acting conscientiously and responsibly to meet public expectations" according to AICPA President Philip B. Chenok in testimony before the House Energy and Commerce Oversight and Investigations Subcommittee on 6/19/86 in Washington, D.C. Appearing before the Subcommittee in a hearing which was described as "Proposals for Improving the Performance of Independent Auditors under the Federal Securities Laws, Especially in the Area of Detecting and Disclosing Financial Fraud," Mr. Chenok testified as a part of a panel which included AICPA Chairman-Elect J. Michael Cook, George D. Anderson, Chairman, AICPA Special Committee on Standards of Professional Conduct for CPAs, and Theodore C. Barreaux, AICPA Vice President-Washington. Mr. Chenok began his testimony by indicating that he would address the initiatives undertaken by the AICPA and others to enhance the effectiveness of independent audits, specifically those which have been undertaken since Mr. Chenok's last appearance before the Subcommittee approximately one year prior. He detailed the activities of the National Commission on Fraudulent Financial Reporting ("Treadway Commission"), an independent commission whose creation was spearheaded by the AICPA. As to internal controls, Mr. Chenok stated: "We are developing recommendations that will, among other things, deal with the scope of the auditor's study of internal controls and the question of public reporting." He went on to outline the work of a special "early warning" task force which would, by the Fall, issue a report on the ways to improve present disclosure of the risks and uncertainties facing a business.

Other areas covered by Mr. Chenok included a pending revision of the AICPA guide, "Audits of Government Contractors," guidance on the audit of loan loss reserves, risks in certain government securities transactions, and shopping for accounting principles. Turning to recently implemented changes in the profession's self-regulatory program, Mr. Chenok stated that steps had been taken to clarify the freedom of the Public Oversight Board to operate within the scope of its charter without the need to seek AICPA approval; that there were revisions in peer review standards, instructions, and checklists; that standards for second-partner required review had been strengthened and extended and that the requirement to report litigation involving SEC registrants to the SECPS Special Investigations Committee had been extended to encompass additional financial institutions. AICPA Chairman-Elect J. Michael Cook testified that the primary responsibility for the detection of fraud rests with the boards of directors and

audit committees, not the auditors. He emphasized the independent auditor's responsibility to the public but stated that the responsibility to report illegal activities to government regulators, what he characterized as the "external responsibility," rests with the corporate boards of directors. Mr. Cook also stated that the AICPA would soon recommend to the SEC that auditors fully disclose the reasons for withdrawing from an engagement. Other testimony from Messrs. Cook, Anderson, Chenok and Barreaux recommended that the Subcommittee abandon HR 4886, Rep. Ron Wyden's bill entitled the "Financial Fraud Detection and Disclosure Act of 1986" and disagreed with a recent Price Waterhouse proposal that a statutory self-regulatory organization is necessary or desirable. In summation, Mr. Chenok stated that the profession is continuing to study all areas affecting the profession and if appropriate, would be willing to make changes through the system which the profession had established.

Prior to the appearance of the AICPA panel, the Subcommittee heard testimony from U.S. Comptroller General Charles A. Bowsher. In his prepared statement, Mr. Bowsher listed four major areas "where the public expects improvements to be made" and where he believed the profession should take action. He listed these as providing better disclosure and early warnings regarding the conditions of companies that are in precarious situations; improving its efforts in determining whether companies are complying with laws and regulations; making sure internal controls and accounting systems are in place that will help prevent fraud and mismanagement in the companies being audited; and reducing the secrecy that surrounds the peer review process and making it mandatory for all public accounting firms that audit public corporations and government entities. In the question and answer session that followed, Mr. Bowsher responded to issues of materiality, the "key relationship" between auditors, the audit committees and boards of directors, internal controls, and legal liability. Mr. Bowsher also stated his view that the profession wasn't changing fast enough, where industries are in transition. He did not endorse a legislative approach stating he was unsure and that a lot would depend on the "key components of what the profession does." Other witnesses at this hearing included James C. Treadway, Jr., Chairman, National Commission on Fraudulent Financial Reporting and Joseph E. Conner, Chairman and Senior Partner, Price Waterhouse. An additional hearing in this series will be held on Monday, 6/23/86 at 10:00 a.m. in Room 2123 of the Rayburn House Office Building. Witnesses for this hearing will include SEC Chairman John S.R. Shad, SEC Chief Accountant, A. Clarence Sampson, and Chief Accountant, SEC Enforcement Division, Robert Sack.

For further information contact Nick Nichols or Shirley Hodgson at 202/872-8190.

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